

Life Expectancy and Health Care Planning

by Lewis J. Walker, CFP®



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Challenges of Aging, Healthcare, and Special Needs; Volume II of Fiduciary Ethos—Living in a Fiduciary World, a 2012 ebook published by FPA Press.

What was the key event of the 20th century? That question was recently posed to a group of financial advisers by Leslie D. Michelson, CEO of Private Health Management Inc. One can name many world-shaping events, including advancements in aviation, the microchip, etc. Michelson opined that the one event that most greatly affects your life and the planning delivered to clients is the increase in life expectancy.

Life expectancy in the Middle Ages in Europe was skewed by high infant mortality rates, but few adults survived past age 45. Little progress was made even into the Industrial Age. A baby born in the U.S. in 1900 had a life expectancy of 48. With advancements in medicine and medical technology, an American child born in 2000 had a life expectancy of 78—a 60 percent increase in 100 years.

Michelson theorizes that mankind has evolved over more than two million generations. Yet average life expectancy only reached 48 years by 1900. In roughly four generations 30 years was added to that average. Michelson

expects the pace of progress to quicken.

The United States originates 70 percent of global biomedical research. Leading change is the field of genetics. Why are complex diseases such as diabetes, high blood pressure, and psychiatric and neurological disorders difficult to predict and treat? Clues lie in the decoded human genome. Your body contains roughly 70 trillion cells; 50 trillion of those cells are imprinted with a full copy of your DNA—your operating system. At least four million gene switches reside in your DNA, switches that control how cells, organs, and other tissues behave.

These discoveries have incalculable implications for human health and longevity because many difficult diseases are caused by minute changes in hundreds of gene switches. The uncontrollable growth of cancer has been traced to mutations in DNA. Doctors now can pinpoint the mutation. Targeted molecular therapies are transforming technologies.¹

Immunologists have learned to identify cells as “friend or foe.” The immune system can be reprogrammed to spot cancer cells and attack and destroy them, avoiding the debilitating effects of chemotherapy.

German physicist Wilhelm Röntgen in 1895 accidentally discovered X-rays, technology that would advance imaging diagnostics into our century. Position emission tomography (PET scans) are read alongside CT or magnetic resonance imaging (MRI scans) to allow detailed pictures of what is happening inside the body.

We now have the “camera pill” to replace invasive cameras on snaking tubes used to check intestinal problems such as in a colonoscopy. Swallowed with a sip of water, the M2A Capsule Endoscopy contains a digital camera encased in a capsule the size of a multivitamin. Traveling through the intestinal system, the camera takes pictures that are captured on a recording device in a belt worn around the patient's waist. Other than fasting for 10 hours prior to swallowing the camera pill, a person may go about normal activities. After eight hours, the pictures are turned over to the doctor. The camera pill is used in diagnosing unexplained bleeding, Crohn's disease, celiac disease, and intestinal tumors.²

PET scans are employed to chart brain activity in Alzheimer's patients, to detect and treat malfunctions in early stages of the disease. New devices for heart valve surgery are less invasive. Robotic surgery offers more precise results. More than 30,000 organ transplants a year are increasing survival rates.

Hailed as one the greatest medical breakthroughs in recent years, the technology news site TechWench.com reported that “scientists at Boston Children's Hospital invented a microparticle that can be injected into a person's bloodstream that can quickly oxygenate their blood. This works even if the ability to breathe has been restricted or cut off entirely. This finding has the potential to save millions of lives every year.”

It is the increased ability to save lives, treat disease, and extend the quality of life that is changing the game, just as millions of baby boomers reach ages that engender increasing demand for medical care. The planning implications are enormous.

Dealing with Averages

The “germ theory of disease” emerged in the first half of the 20th century. The eradication and control of many infectious and parasitic diseases, particularly among infants and children, led to a big jump in life expectancy. Preventive medicine, inoculations, antibiotics, emphasis on hand washing, and improvements in water quality and sewage disposal have lengthened life spans.

Since 1950, gains in life expectancy stemmed largely from the prevention and control of chronic adult diseases, including heart and cerebrovascular diseases (stroke). The Centers for Disease Control and Prevention (CDC) cites additional factors in life extension, including greater numbers of specialists and health care providers focusing on complex diseases (heart, cancer), and an increase in emergency medical centers for treatment of heart attack and stroke, as well as coronary care centers.

In an August 16, 2006, report for Congress, the CDC noted the importance of changes in individual behaviors. Cigarette usage is declining. Hypertension and blood pressure can be controlled with less expensive generic drugs.

A quest for healthier eating may extend lives. McDonald's posts calorie counts for its menu items (Big Mac, fries, plus a 16 oz. Coca-Cola equals 1,140 calories). McDonald's has begun offering the Egg White Delight—an Egg McMuffin with egg whites, Canadian bacon, and white cheddar cheese on a whole grain muffin, 260 calories.³

When using life expectancy data in planning, advisers should clarify the terms used. Life expectancy is the expected number of years to be lived on average for a particular group. “Life expectancy at birth” assumes that mortality trends continue for the rest of the group's life. For example, leading-edge boomers born in 1946 had a life expectancy at birth of 63.6 years for males, 68.1 years for females. A median average assumes that half of those born in 1946 would die before their scheduled expiration date while half would live longer.

Fortunately for the boomers still around, life expectancy has increased. A male boomer turning 65 today has an additional 18.6 years of life expectancy, a woman 20.9 years.⁴ We would expect half to live longer, half to die sooner.

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Challenges for Advisers and Clients

More physicians are moving to concierge medicine, no longer the province of the super rich. Concierge medicine increasingly encompasses a wider range of services and access arrangements. Fees may be a doctor's sole source of income or he/she may take insurance, with fees supplementing income. Fees

at the lower end may be in the \$1,200–\$1,800 annual range.⁵ For a family or retired person, that's an added cost.

With boomers retiring and health care reforms covering more people with insurance, plus entitlements like “free annual screenings,” demand for medical services will accelerate. The supply of physicians will not keep pace. Many services will be delivered by paraprofessionals, nurse practitioners, and physician's assistants. Have you tried to see your doctor on short notice?

ABC News in Raleigh-Durham, North Carolina, teamed up with AARP and volunteers “shopped” for a new doctor. Randomly calling family physicians determined that nearly 50 percent of the 200 doctors contacted were not taking new Medicare patients.⁶ With Medicare and Medicaid squeezing doctors on reimbursements, expect the physician shortage to get worse.

We must counsel clients, especially the soon to be retired, that their health care expense budget may have to be larger than they imagine. We seem to be headed toward a private pay option for those who can afford it and a public system for everyone else. Quality care and access may be a matter of affordability or sacrifice in some other aspect of retired life.

Fidelity estimates that a couple age 65 retiring in 2012 will need \$240,000 to cover medical expenses. Fidelity assumed a 17-year life expectancy for the husband, 20 years for the wife. Cost sharing under Medicare was considered, but the estimate excludes other expenses such as over-the-counter medications, most dental services, and long-term care. Fidelity's estimate was \$160,000 in 2002, indicating a 50 percent increase over 10 years.⁷

Fidelity assumed that the female retiree would live to age 85. However, women are living longer, and more do so alone because of divorce or widowhood. Among females age 85 and older, only

13 percent are married with a spouse present.⁸ That could mean higher costs for care, or a burden on boomer children.

We cannot dismiss changes in Medicare as a factor in health care estimates. Means testing, an increased eligibility age, waiting periods, and/or de facto rationing as physicians opt out and concierge medicine becomes more common, would increase cost burdens.

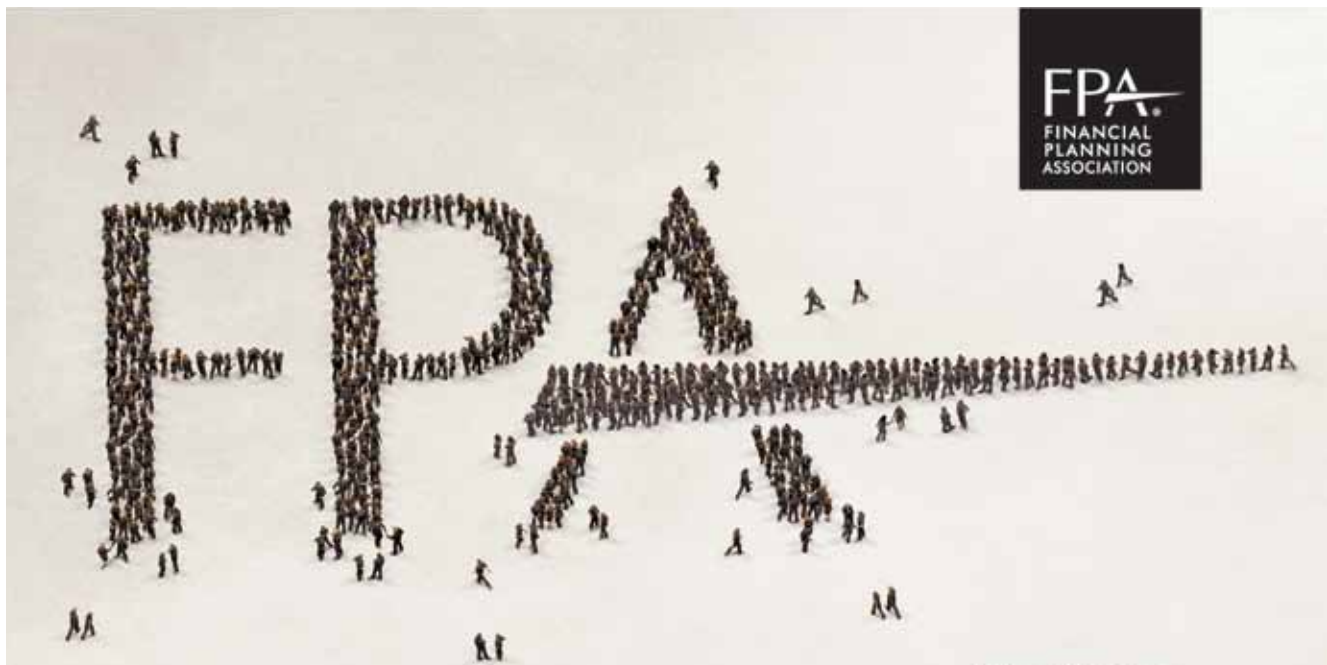
Realistic estimates of health care costs in retirement are de rigueur in a fiduciary practice. The challenge is compounded by the lowest interest rates in decades and the potential for rising rates and galloping inflation. Health care and wealth care are inextricably intertwined.

Are clients ready—mentally and financially—for potentially longer life? Reality and statistics suggest that they are not. ■

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Endotes

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